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ENERGY MARKET REPORT FOR MAY 17, 2011

Democratic senators said they want the Federal Trade Commission to investigate whether US oil refiners are cutting back on gasoline production in order to keep pump prices high. The senators seeking the FTC investigation cited recent Energy Department data showing that US refiners are operating only at about 82% of capacity. The National Petrochemical and Refiners Association called the senators' accusations of price fixing baseless.

Market Watch

The US Commerce Department said US home construction fell unexpectedly in April, an indication that the troubled sector would remain a drag on the economic recovery. Construction of homes and apartments in April fell by 10.6% on the month to a seasonally adjusted annual rate of 523,000. March's figures were revised upward to an annual rate of 585,000. It reported that new building permits fell by 4% on the month to an annual rate of 551,000.

A Federal Reserve report said overall US industrial production was relatively flat in April. It said factory production fell 0.4% as the tsunami and earthquake that hit Japan and disrupted the auto business. Excluding cars and parts, US factory production increased by 0.2% in April. The Fed data showed total motor vehicle assemblies declined from an annual rate of 9 million units in March to 7.9 million units in April, mainly because of parts shortages that resulted from the earthquake.

The Institute for Supply Management said the US manufacturing and services sectors would continue to grow this year with revenue in both sectors expected to increase. Manufacturing revenue is expected to increase 7.5% in 2011 from 2010 while revenue in the services sector is expected to increase 2.1%.

Bank of America Merrill Lynch said US gasoline demand is unlikely to hold over the summer months meaning that crack spreads are likely to narrow. The bank said after some support in the short term for gasoline prices from refining capacity shut ins in Europe, the spread between the price of crude and RBOB would narrow to \$17-\$19/barrel range from a current level of about \$24/barrel.

According to the Bank for International Settlements, the gross notional volume of privately traded or over-the-counter, derivatives outstanding globally increased 3.2% in the second half of 2010 to \$601 trillion.

According to a SpendingPulse report released by MasterCard Advisors LLC, US weekly gasoline demand increased by 2.1% to 9.307 million bpd in the week ending May 13th. The four week demand averaged 9.208 million bpd, down 1% on the year. It reported that the US average retail price of gasoline fell by 1 cent to \$3.97/gallon on the week. It is up 37.8% on the year.

API Stocks

Crude – up 2.669 million barrels
Distillate – down 2.844 million barrels
Gasoline – down 676,000 barrels
Refinery runs – down 0.5%, at 81.7%

The head of Libyan National Oil Co, Shokri Ghanem defected from the regime of Col. Muammar Gaddafi. Libyan rebel oil and finance minister Ali Tarhouni said it was not clear if Libya's top oil official would play a role in helping the Libyan rebels with oil production. A Tunisian security official confirmed Ghanem was in Tunisia since May 14th.

Iran said the ball was in the court of the six major powers that have been trying to resolve the concerns over its nuclear program after it expressed readiness for new talks. Iran's President Mahmoud Ahmadinejad on Sunday said Iran was ready for talks and added that he hoped that future meetings would yield results.

**May
Calendar Averages**
CL – \$102.36
HO – \$2.9796
RB – \$3.1629

Refinery News

Colonial Pipeline allocated Cycle 29 shipments on its Line 20 carrying distillates from Atlanta, Georgia to Nashville, Tennessee. Colonial also stated that it was not impacted by the Mississippi and Louisiana flood levels and continues to operate at normal flow rates. It said the opening of the Morganza Spillway would not cause water levels to increase above dykes around its Krotz Springs facility. It said it has contingency plans that would allow the safe operation of its mainlines at normal rates even if the Krotz Springs station is bypassed.

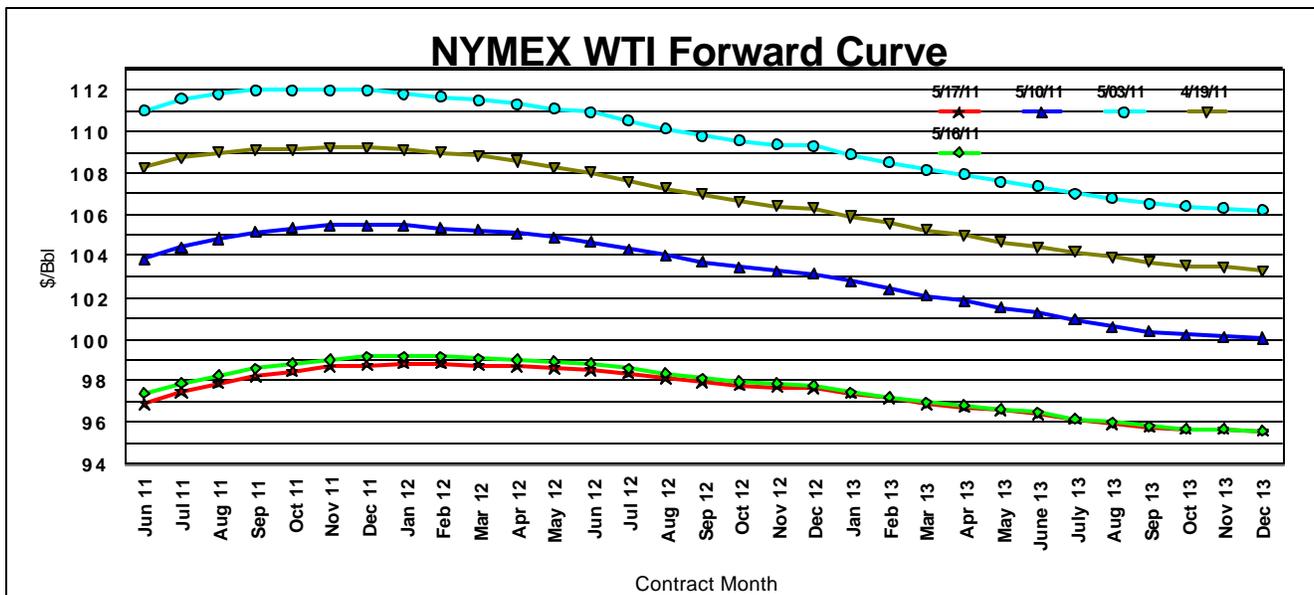
Royal Dutch Shell Plc said it has a small leak on a piece of equipment at its 156,400 bpd Martinez, California refinery. It said the leak was isolated and addressed within an hour of its discovery.

Russia's Lukoil is starting to produce Euro-5 motor gasoline at its Russian Nizhny Novgorod Refinery. Gasoline production is expected to increase by 1 million tons or 8.5 million barrels by the end of 2011 compared with the previous year.

Japan's ten power utilities consumed more oil, thermal coal and liquefied natural gas in April than a year earlier, despite a decline of 8.4% in total power generation. The total amount of crude oil consumed increased by 119.8% on the year to 605,416 kiloliters while liquefied natural gas consumption increased by 6.8% on the year to 3.825 million tons.

Production News

Oil production at Nexen Inc's Buzzard oilfield in the North Sea remains at reduced rates. It previously stated that it expected output to be variable in coming weeks due to repairs on the cooling system and work to finalize the commissioning of a fourth platform.



Wildfires in Alberta have forced oil companies to shut in tens of thousands of barrels of output. Penn West Petroleum Ltd shut 25,000-30,000 bpd of heavy oil production from operations in north-central

Alberta. Cenovus Energy Inc said output at its 22,000 bpd Pelican Lake field was cut to 16,000 bpd. It may cut production further tonight as the Rainbow Pipeline remains closed due to wildfires. It expects oil storage at the Pelican Lake field to be full sometime on Wednesday. Canadian Natural Resources Ltd evacuated 1,300 people from two work camps near its Horizon oil sands project. It said it is slowing output at its Pelican Lake heavy oil field in Alberta. It has also shut an additional 3,125 bpd of oil and 8 million cubic feet/day of natural gas in areas threatened by fire. It said it is filling up storage tanks at the 40,000 bpd facility, which is nearing capacity. Pengrowth Energy Corp said 5,000 bpd of oil equivalent production in northern Alberta was shut in.

Plains All American Pipeline LP agreed to construct a 130 mile oil pipeline, marine terminal and storage capacity to service the Eagle Ford shale region in south Texas. It expects the project to be in service in the fourth quarter of next year.

A senior oil official said Iran's oil and gas reserves have increased by 500 million barrels and five trillion cubic feet, respectively, with the discovery of new onshore oil and gas fields in the south and west of the country. Iran increased the estimate of its oil reserves from 138 billion to 150 billion barrels last year after Iraq increased its reserves estimated to 143 billion barrels. Iran's estimate of gas reserves was 33 trillion cubic meters.

Colombia's Ecopetrol SA announced an oil discovery in the south of the country, part of the firm's efforts to find new crude deposits as it seeks to increase output. It found oil in the Mito-1 exploratory well in the oil rich region of the Meta province.

Royal Dutch Shell PLC has made no secret of its interest in developing the hydrocarbon resources in the Russian Arctic but its preference remains for investment on a project by project basis rather than buying stakes in local companies.

Russia's OAO Rosneft is expected to begin talks with other international oil majors to develop hydrocarbons in the Arctic, after efforts to salvage a deal with BP PLC broke down late Monday due to unacceptable demands from BP's partners in TNK-BP Ltd. BP partners in the TNK-BP consortium turned down a joint \$32 billion buyout offer from BP and Rosneft for their 50% stake in the joint venture.

BP Plc agreed to sell Wytch Farm, one of the UK's few onshore oil fields, to Perenco UK Ltd. The sale is the latest in a series of divestments aimed at raising \$30 billion to help cover the cost of the Deepwater Horizon oil spill in the Gulf of Mexico. The completion of the sale is subject to partner pre-emption rights and a number of third party and regulatory approvals.

Market Commentary

Crude oil prices traded lower through out most of the session, pressured by news that U.S. housing starts and building permits declined during the month of April and industrial production came in near unchanged. This economic news once again brought attention to the demand factor. Those that bought on the possibility that refineries in the Mississippi River flood area would suffer damages were still exiting longs today. With expectations that inventories will increase across the board, crude oil and its products should continue to encounter pressure. Barring any significant surprises in regards to these numbers, we would look for crude oil to test support at \$92.84 and for the front end of the curve to also dip, looking for the front spread to test the -.70 area.

Crude oil: June 11 165,081 -26,108 July 11 372,506 +9,062 Aug 11 90,941 +425 Totals 1,629,846 -21,114 Heating oil: June 11 69,117 -3,651 July 11 73,601 +2,791 Aug 11 33,379 +115 Totals 314,420 +2,280 Rbob: June 11 55,752 -3,942 July 70,445 +2,659 Aug 11 26,256 +55 Totals 276,830 -3,185

Crude Oil		Heating Oil		Rbob	
Support	Resistance	Support	Resistance	Support	Resistance
9284	10845		31325		
8700	11120	27695	32777		33369
8625	11483	26680	33370	26965	35915
8500	11563	27375	33510	26300	36310
8385	11703	23685		25683	
	12126	22960		25145	
	14933			24240	
				23631	
				23414	

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